

Minutes of the
RENEWABLE ENERGY COUNCIL
Wednesday, August 19, 2013 – 10:15 a.m. (CDT)
Great River Energy
1531 E. Century Avenue, Bismarck, ND

CALL TO ORDER

Members Present: Al Anderson, Rod Holth, Mark Nisbet, Al Christianson, and Randy Schneider.

Members Absent: Eric Mack and Terry Goerger

Others Present:

Andrea Pfennig, Department of Commerce
Karlene Fine, Industrial Commission
Joleen Leier, Department of Commerce
Justin Dever, Department of Commerce

Al Anderson, Chairman, called the Renewable Energy Council meeting to order at 10:17 a.m.

WELCOME AND OPENING COMMENTS

Anderson welcomed everyone and thanked them for attending. Main purpose is to summarize legislative action and talk about where we are at and what we might do to enhance interest in our expanded program. He indicated that Karlene and Andrea will be providing a summary of the past and recommendations for policy changes.

APPROVAL OF MINUTES

April 3, 2013 meeting minutes were reviewed.

Randy Schneider moved to approve the minutes as presented. Mark Nisbet seconded the motion. All in favor. Motion passed.

SUMMARY OF 2013 LEGISLATIVE ACTION IMPACTING RENEWABLE ENERGY PROGRAM

Justin Dever distributed a handout covering legislative changes to all energy programs. Dever covered four items that directly impacts Renewable Energy.

1. **Funding Source:** Traditionally the funding that the Renewable Energy Council (REC) has received has been appropriated each legislative session, which has been up to \$3 million. With the recommendation of the EmPower ND Commission, the Legislature is now providing an ongoing, more permanent type of funding source. The funding source is a portion of the Resources Trust Fund. 5% of what the Resources Trust Fund receives per biennium will be transferred to the Renewable Energy Dev. Fund for the REC program, up to \$3 million a biennium. As long as the Resources Trust Fund receives \$60 million in a biennium, the REC Program will receive the \$3 million. It is anticipated that the Resources Trust Fund will receive \$540 million this biennium, so the \$3 million should be available for the Renewable Energy Program for the 2013-2015 biennium.

Schneider asked, is there a requirement that we spend \$3 million? Dever stated, it is in its own separate fund so will automatically carryover from biennium to biennium. There is nothing that requires that the funds be spent during any particular biennium.

Dever stated that same section of SB 2014 Section 29 also provided funding for the Energy Conservation Grant (ECG).

Nisbet asked if the Energy Conservation Program also received ongoing, permanent funding. Dever stated yes, but not the same amount. Pfennig stated they are modeling the program after the EECBG (Energy Efficiency & Conservation Block Grant) program. They received \$10 million for that

program. She feels there is still a lot of demand for this program.

Dever stated that the Governor had proposed the state ECG be funded at the \$2.7 million level. The Legislature funded the program at \$1.2 million per biennium.

Nisbet asked if Pfennig has found good projects to fund. Pfennig stated yes, this is one of the most common sense programs. It reduces operating costs for local governments. They have to show up front that the project will save enough energy to pay for itself in ten years. The Department of Commerce spent \$8.3 million on buildings with the EECBG Program and estimated payback was \$11 million over ten years.

2. SB 2014 Value-added Energy Market Opportunities study. The Legislature provided \$500,000 for a study on both renewable energy and oil and gas. The Empower ND Commission has decided to use \$300,000 of that study on the oil and gas side for natural gas liquids and \$200,000 on the Renewable Energy side and will focus on ethanol.

Dever stated that the EmPower Commission is anticipating receiving the results of the study sometime next spring.

3. HB 1382 extends the wind sales tax exemption another two years. It was set to expire in 2015 and has been extended to 2017.
4. SB 2287 deals with Fuel Production Facility Loan Guarantee Program run by the Bank of North Dakota. That was set to expire 7/31/2015. They have extended that an additional two years and they have upped the maximum. It was at \$12.5 million; they have increased that to \$25 million. They have also changed the funding source; the Bank of North Dakota has access to Strategic Improvement and Investment Funds (SIIF) to help guarantee those loans.

Nisbet talked about the sales tax. Their company just announced two wind projects. It was good

work on the sales tax exemption and that is helpful in promoting the development of the wind industry in North Dakota.

Randy Schneider asked Nisbet what they see at the federal level. Nisbet stated they were surprised to see the extension. They are seeing tremendous prices on the wind.

PRESENTATION OF FINANCIAL SUMMARY

Fine presented the financial summary. (A copy of the report is available in the Council/Industrial Commission files.) This is the final one for the 2011-2013 Biennium. We started out with \$3.3 million. We had revenues from the General Fund for \$1.5 million. We had some interest earnings and application fee income of \$9,300; expenditures of \$2.1 million. We had a cash balance of \$2.7 million as of June 30, 2013. We had outstanding project commitments of approximately \$1.9 million, so the program had uncommitted dollars of \$865,744.42 as of June 30, 2013.

We will be adding an additional \$3 million to that balance. Fine spoke with OMB and they anticipate that the additional funding should be in the Renewable Energy Fund by the end of October.

Schneider asked about outstanding administrative commitments of \$100,000 in the 2013-2015 Biennium Financial Statement. Fine stated that is the estimated costs for the Department of Commerce and the Industrial Commission for administering the program.

In the Financial Statement for 2013-2015 we start with a cash balance of 2,757,612.42. We have estimated administrative costs of \$100,000 and outstanding project commitments of \$1.9 million. Uncommitted dollars as of July 1, 2013 are \$765,744.42. The additional \$3 million will be added to that amount to give us a total of approximately \$3,800,000 of uncommitted dollars as of July 1, 2013.

CONSIDERATION OF RENEWABLE ENERGY PROGRAM POLICIES

Summary of Applications over Past Three Years

Pfennig provided a spreadsheet and reviewed past projects that weren't funded (a copy of the spreadsheet is available in the Council/Industrial Commission files). These projects were withdrawn, turned down at the staff level, or not approved by the Council.

Anderson stated the purpose of this was to ensure that the Council was aware of projects that were eliminated early in the process so the Council had that background information when determining if the current guidelines should remain in place.

Schneider asked if staff was finding competent reviewers. Pfennig stated that she is comfortable with the reviewers. The reviewers generally are not from North Dakota so they don't have a vested interest in the proposals. If the reviewers don't give enough feedback she will go back to them and ask for more comments or she won't use them again.

Holth asked what we pay the reviewers. Pfennig stated the reviewers are paid \$300 for each review.

Anderson asked Dever how the Department of Commerce is going to work with the University System to tie in the EPSCOR designated to Commerce this legislative session. Dever stated it would be a report next summer to the Budget Section. It will be a combination of Research North Dakota and EPSCOR. Anderson stated what the legislators are pushing Commerce to do is to make sure Commerce has a good understanding of the research that is going on with the two universities and making sure Commerce is linking in all Commerce's programs and tying them together.

Schneider asked if the reviewers are credentialed (i.e., PhD's, masters)? Pfennig stated yes they typically have PhD's. There is one reviewer on the east coast that is a venture capitalist that works specifically with renewable energy.

Overview of Suggested Policy Changes – Memorandum Dated August 14, 2013 (A copy of the memorandum is available in the Council/Industrial Commission files.)

Fine stated as they looked at the new money coming in and looking at the quality/type of

applications that have been coming in, we wanted to revisit and have a conversation with the Council members about what we should or shouldn't be doing and asking the question, "Do our policies need to be revised?"

The Council then discussed the following points that had been stated in the August 12, 2013 memo:

- Lack of awareness of the Program?
- Limited funding-is the amount of \$500,000 too low?
- Eligibility requirements too restrictive?
- Match requirements too limiting?
- Lack of match funding from private industry?
- Provide more assistance in writing a grant proposal?

The following suggestions from discussions with Anderson and Christianson were also outlined in the August 12, 2013 memo:

- Coordination between various entities within Commerce.
- Attendance at workshops, conferences, annual meetings of the commodity groups, etc.
- Reach out to commodity groups.
- Research universities, especially on the commercialization side.
- Do more news media.
- Suggestions of other entities we should contact.

Discussion

Schneider stated that the Council is at a cross roads. The EmPower Commission study we are going to get ought to drive what the Council will do and how the Council will fund projects.

Another opportunity the Council should consider is the recently created Bioscience Association. That Association is working on a conference where Senator Hoeven, NDSU and the Bioscience Association would host on an annual basis. It would bring everyone together including researchers and venture capitalists, to talk about what is happening in North Dakota.

Schneider commented that he thought it would be great if Anderson could speak at that conference;

discussing what the Renewable Energy Council is doing.

Holth asked when the EmPower Commission market study was due to be completed. Dever stated the first draft of the report should be done in May 2014. The EmPower Commission is planning on presenting it to the Energy Development and Transmission Committee in July 2014.

Schneider suggested that the Council should start laying out a template for the market study. We now have some permanency to this Fund. We can strategically go from bench, to pilot, to commercialization because we have an identified source and amount of funding. We can strategically work with the projects all the way through. We can even invest in the business as a quasi-venture capitalist.

Schneider stated this could possibly be where the Council begins controlling its own destiny in deciding which projects to fund. We strategically decide which way we want to go.

Anderson stated that a number of the items outlined in the memorandum can be done within Commerce. That's making sure we don't have overlap and that we are working internally well. That can include whether it involves APUC, Research North Dakota, Innovate, or the Renewable Energy Council. We can and will pull those together. We also have the ability to get out and talk with developers and entrepreneurs through Commerce's Economic Development and Finance ties.

Anderson talked about the Great Plains Empower North Dakota event that is coming up. The two key areas of focus are regulation and value added energy. There will be Senators, Congressman, as well as the Governor at the event. The disadvantage is it is a one-day event so we will only be able to hit the key topics.

Schneider would like to see a State of Research Address like the State of Union address at the Bioscience Conference. Commissioner Anderson would give an address on what the Renewable Energy Council is doing and why we are going in this direction.

Nisbet stated that more news media is a good suggestion. Press releases should be sent out consistently.

Schneider stated we should think about what media we want to utilize other than the Bismarck Tribune. We need to look outside the box.

Networking at the Bioscience Conference is critical.

Fine discussed avenues that can be used other than grants (i.e., loans, venture capital). There are a few restrictions in the Council policy that we could revisit now. At the last meeting the Council said we need to amend the Council policy to state that the project needs to have significant involvement from a North Dakota private entity. If that is still where we want to go, we will draft that language for the next set of amendments.

Pfennig did some reaching out to the research branches at NDSU and UND. They have made a couple comments "In all cases, projects must demonstrate a high probability of advancing to a commercially viable stage supported by a road map to commercialization." Fine stated that really limits the bench scale studies coming in. They have to prove it at the bench scale and that is too far from commercialization.

Anderson stated Research North Dakota's focus has been more project related, dollar-to-dollar match to get to tail-end commercialization rather than the bench research. But what the universities will say is if you are having problems investing all of the dollars, look more towards EPSCOR or the bench research as well. Anderson noted that a change to this provision may not be supported by the Industrial Commission. This could be a good mix between bench and commercialization since we have the funds.

Dever asked if the Lignite and Oil & Gas have done bench scale type research. Fine responded that the Lignite Research Program does a lot of bench-scale research, the Oil and Gas Research Program not as much.

Schneider stated, we should look at what the needs are and then find the solution. Bench scale research should only be done for established problems.

Schneider asked if systems are in place that would allow the Renewable Energy Program to get back what was put in, or to receive a percentage of what the program's money was worth? Fine stated she wasn't familiar with this area. Anderson stated that is how we've handled it in the past. As far as recommendations for the Research ND program, the idea there is to help take some of the research to investigate whether it is a possible business opportunity. Those grants don't require a match. The second phase to that is similar to the Renewable Energy Council program. It's really getting the business model set up for that possible business. The third one is if we are looking for additional investment in the project; the Phase 3 would go through the Development Fund or Bank of North Dakota. Do we rely on the Development Fund and Bank of North Dakota and/or do we look at setting seed money aside for that? Anderson stated that he is most comfortable utilizing the Development Fund and Bank of North Dakota. Christianson stated he agreed.

Fine stated the Renewable Energy Council could make money available to the Development Fund and Bank of North Dakota to administer for the Council if the Council wanted to become an investor in a project.

Christianson stated if we make money available for Development Fund, legislators may redesignate some of our funds to the Development Fund. Dever stated the Council could contract with the Development Fund to administer the dollars for the Council. Christianson stated the Council should stay away from this area.

Anderson suggested having Dean Reese from the Development Fund make a presentation at the Council's next meeting.

Schneider talked about pooling assets. Anderson asked the question--will it solve a specific problem or help build an opportunity? Schneider stated research dollars can solve a problem or help create an opportunity.

Fine asked if the Council feels they can wait until May for the EmPower Commission Market Study report before awarding grants.

Anderson stated what we want to do is look at the policies to see if they are too restrictive. Besides creating more interest and finding people, is there something we should change as a group. Nisbet stated we should look at how it looks from the applicant's perspective.

Anderson asked, what can we do in the interim until the report is done? Are we leaving some projects on the table that we should be investing in? Schneider stated the Council should not speed up at all and follow the natural process.

Christianson stated we need to improve communications and continue with the process we are utilizing now. As a Council, some of us may now be more open to some projects since we have an identified amount of funding.

Holth commented we should improve our awareness as a Council in our discussions on projects.

Improve communications to weekly papers in North Dakota as well as national publications.

Anderson stated he is not hearing a lot of changes.

Anderson and Fine explained indirect costs and that the way the policy is now written implies that the federal level is the floor for the percentage that should be used. It was suggested you have a higher ranking if you have a lower indirect; everyone agreed. Fine suggested adjusting that language; the committee agreed.

Pfennig stated she had two separate conversations regarding indirects. One individual asked for language reserving the right to negotiate or reject the indirect rate. Another person that hasn't even applied for the program asked if they could run it through the industry side rather than the university side because if they went through the university system they would have to include the higher indirect rate. Then the industry isn't interested.

It was agreed that Fine and Pfennig should work on the wording of proposed revisions and bring them back to the Council for consideration.

